

OPEN MEETING



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MEMORANDUM

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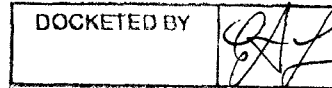
TO: THE COMMISSION

FROM: Utilities Division

JUN 19 2015

AZ CORP COMMISSION
DOCKET CONTROL

DATE: June 19, 2015



ORIGINAL

RE: IN THE MATTER OF THE APPLICATION OF BOB B. WATKINS DBA EAST SLOPE WATER COMPANY TO AMEND DECISION NO. 73091 PURSUANT TO A.R.S. §40-252 (DOCKET NOS. W-02031A-10-0168; W-02327A-10-0169; W-01906A-10-0170; W-01906A-10-0171; W-02031A-10-0171; W-02327A-10-0171; W-01906A-10-0183, W-02031A-10-0184 AND W-02327A-10-0185).

Introduction and Background

In Decision No. 73091, dated April 4, 2012, the Arizona Corporation Commission ("Commission") approved a water infrastructure surcharge mechanism for Bob B. Watkins dba East Slope Water Company ("Company"). The Decision authorized the Company to obtain a 20-year amortizing loan in an amount not to exceed \$2,748,504 to finance the proposed improvement projects, and at an interest rate not to exceed that which is available from the Water Infrastructure Finance Authority of Arizona ("WIFA").

In Decision No. 73615, dated December 12, 2012, the Commission amended Decision No. 73091 to authorize the Company to obtain an interest only loan, for a term not to exceed three years from WIFA, in an amount not to exceed \$282,748 for the purpose of planning and designing improvements to the Company's water system. The Company was ordered to then roll the outstanding balance of that loan into a second loan in an amount not to exceed a combined total of \$2,748,504 for the purpose of constructing improvements to the Company's water system. The length of the second loan is concurrent with the actual length of the first loan to equal 20 years. Decision No. 73615 also approved the infrastructure surcharge mechanism for the Company. The Company's current monthly infrastructure surcharge is \$0.23 for a customer with a 5/8 x 3/4-inch meter.

On March 6, 2015, the Company filed an application to amend Decision No. 73091 pursuant to A.R.S. Section 40-252 to modify the scope of the improvement projects (outlined in Exhibit B of Decision No. 73091) and to modify certain dates related to financing and construction of proposed improvement projects. On April 13, 2015, the Commission agreed to an Arizona Revised Statute ("A.R.S.") § 40.252 request for the Company.

On March 27, 2015, WIFA sent a letter to the Commission asking to consider including the debt service reserve in the calculation of the water infrastructure surcharge.

Staff concludes that the proposed capital improvements and estimated costs total \$2,114,063. The Company is to receive from WIFA a \$2,114,063, seventeen-year, 5.25 percent combined interest and fee rate loan that will be used to finance capital improvements.

Calculation of Infrastructure Surcharge

Staff's calculation utilized the Company's customer billing determinants to compute the appropriate infrastructure surcharge based on meter size. Staff's infrastructure surcharge is calculated to be collected as a monthly surcharge in addition to the customary monthly minimum charge and does not include a commodity component.

Based on the estimated \$2,114,063 WIFA loan and the 5.25 percent combined interest and fee rate, the Company will be required to pay \$188,253 for Annual Principal and Interest and \$37,651 for Annual Debt Service Reserve. The WIFA loan surcharge also includes a component for the annual income tax. A Gross Revenue Conversion Factor of 1.318505, approved in Decision No. 73091, was used to calculate the annual income tax component of surcharge revenue.

Staff has included the debt service reserve fund in the WIFA loan surcharge that customers will pay. The debt service reserve fund is a fund that the Company pays into for five years. After five years, the balance will equal one year of principal and interest payments for the loan. Staff calculated a monthly infrastructure surcharge for a customer with a 5/8 x 3/4-inch meter at \$18.48. An East Slope Water Company residential customer on a 5/8 x 3/4-inch meter using an average of 9,137 gallons would see a monthly increase of \$18.25, or 71.25 percent, from \$25.51 to \$43.76. An Indiada Water Company residential customer on a 5/8 x 3/4-inch meter using an average of 8,731 gallons would see a monthly increase of \$18.25, or 73.51 percent, from \$24.82 to \$43.07.1 An Antelope Run Water Company residential customer on a 5/8 x 3/4-inch meter using an average of 11,839 gallons would see a monthly increase of \$18.25, or 55.62 percent, from \$32.81 to \$51.06.2

When the reserve fund is included in the WIFA surcharge, as Staff has done, ratepayers will be effectively "prepaying" \$188,253 in funding that will eventually be used to either make loan payments or to pay for future maintenance, or if not so, this balance will be refunded to the Company. Ratepayers should ultimately be given credit for making these prepayments. Therefore Staff recommends the following:

1. Approval of the infrastructure surcharges presented below:

MONTHLY INFRASTRUCTURE SURCHARGE

5/8"x 3/4" Meter	\$ 18.48
3/4" Meter	\$ 27.72
1" Meter	\$ 46.20
1 1/2" Meter	\$ 92.40
2" Meter	\$147.84
3." Meter	\$295.68
4" Meter	\$462.00
6" Meter	\$924.00

1 Decision No. 73019 approved the consolidation of Indiada Water Company with East Slope Water Company. Separate rates were maintained for Indiada customers.

2 Decision No. 73019 approved the consolidation of Antelope Run Water Company with East Slope Water Company. Separate rates were maintained for Antelope Run customers.

2. That the current monthly infrastructure surcharge is cancelled when the new surcharge becomes effective.
3. That the Company is required to file a follow-up rate case within five years of the effective date of the surcharge approval. If the Company fails to timely file the rate case, the WIFA surcharge will automatically cease no later than July 31, 2020.

Conclusion and Recommendations

Staff recommends modification of the loan authorizations approved in Decision No.73091 via A.R.S. §40-252 to approve a revised project list and to authorize the Company to obtain a seventeen-year amortizing consolidated loan in an amount not to exceed \$2,114,063 for the purpose of constructing system improvements.

Staff recommends approval of the monthly infrastructure surcharges by meter size as presented in Schedule PNT-1.

Staff recommends the new infrastructure surcharge become effective when the Company closes this portion of the WIFA loan.

Staff recommends the cancellation of the current monthly infrastructure surcharge when the new infrastructure surcharge becomes effective.

Staff recommends that the Company place the surcharge funds in a separate, interest-bearing account; and withdrawal access to that account is restricted to only WIFA except for income tax withdrawals necessary to pay the associated income taxes.

Staff recommends that the Company file with the Commission an infrastructure surcharge tariff consistent with the rates reflected in schedule PNT-1.

Staff recommends that the Company be required to file a follow-up rate case within five years of the effective date of the surcharge approval. If the Company fails to timely file the rate case, the WIFA infrastructure surcharge will automatically cease no later than July 31, 2020.

Staff recommends that the Company notify its customers of the infrastructure surcharge tariff approved in this proceeding within 30 days of the effective date of the Commission Decision, in a notice acceptable to Staff.

Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, documentation which demonstrates the final loan details and customer count within 30 days of when the new infrastructure surcharge is first billed.

Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, documentation which demonstrates that the interconnect with Pueblo Del Sol Water Company will provide the West System as much water as needed by the Company to serve its customers. This documentation should be provided prior to the Company closing on any loan for these improvements or by October 2, 2015, whichever is earlier.

THE COMMISSION

June 19, 2015

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Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, by July 1, 2016, copies of the Approvals of Construction ("AOC") for each of the proposed improvement projects, as delineated in the Proposed Capital Improvement Projects and Costs Table.



for Steven M. Olea
Director
Utilities Division

SMO:PNT:red\RRM

ORIGINATOR: PHAN TSAN

Bob B. Walkins DBA East Slope Water Company.

Schedule PNT-1

Docket No. W-01906A-10-0186, W-02031A-10-0184 & W-02327A10-0185

CALCULATION OF INFRASTRUCTURE SURCHARGE AMOUNT

Loan Amount	\$2,114,063
Principal and Interest (17-year WIFA Loan and a 5.25% combined Interest and Fee Rate)	\$188,253
Debt Service Reserve	\$37,651
Annual Income Tax Component	<u>\$25,210</u>
Total Annual Surcharge Revenue Requirement for the Loan	<u>\$251,114</u>

Total Equivalent Customers	1,133
5/8"x 3/4" Meter Surcharge Amount	\$18.48
3/4" Meter Surcharge Amount	\$27.72
1" Meter Surcharge Amount	\$46.20
1 1/2" Meter Surcharge Amount	\$92.40
2" Meter Surcharge Amount	\$147.84
3." Meter Surcharge Amount	\$295.68
4" Meter Surcharge Amount	\$462.00
6" Meter Surcharge Amount	\$924.00

Meter Size	No. of Customers	Meter Multiplier	Equivalent Customers	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	1,011	1	1,011	\$18.48	\$221.76	\$224,199
3/4" Meter		1.5	-	27.72	332.64	-
1' Meter	19	2.5	47.5	46.20	554.40	10,534
1 1/2" Meter	10	5	50	92.40	1,108.80	11,088
2" Meter	3	8	24	147.84	1,774.08	5,322
3" Meter		16	-	295.68	3,548.16	-
4" Meter		25	-	462.00	5,544.00	-
6" Meter		50	-	924.00	11,088.00	-
Total	<u>1,043</u>		<u>1,132.5</u>			<u>\$251,143</u>

Decision No. _____

WIFA LOAN SURCHARGE CALCULATION

Loan Amount: \$2,114,063
 Term: 17
 Interest Rate Before Subsidy
 WIFA Subsidy Rate:
 WIFA Interest rate : 5.25% If interest rate is not found on TABLE A, use the next highest percentage

Step 1 - Find the Annual Payment on Loan

\$2,114,063 Total Amount of Loan
 0.0890 TABLE A, Conversion Factor Table, Column B
 \$188,252.53 Annual Principle and Interest Payment

Step 2 - Find the Annual Interest Payment on Loan

\$2,114,063 Total Amount of Loan
 0.0516 TABLE A, Conversion Factor Table, Column C
 \$109,101.76 Annual Interest Payment on Debt

Step 3 - Find the Annual Principal Payment on Loan

\$2,114,063 Total Amount of Loan
 0.0374 TABLE A, Conversion Factor Table, Column D
 \$79,150.77 Annual Principal and Interest Payment

Step 4 - Find the Gross Revenue Conversion Factor

1.318505 From previous rate case (Decision No. 73091)

Step 5 - Find the Incremental Income Tax Factor

1.31851 minus 1 = 0.31851

Step 6 - Find the Annual Income Tax Component of Surcharge Revenue

0.31851 Incremental Income Tax Factor (from Step 5)
 \$79,150.77 Multiplied by: Annual Principal Payment on Loan (from Step 3)
 \$25,209.92 Annual Income Tax Component of the Annual Surcharge Revenue

Step 7 - Find the Debt Service Component of the Annual Surcharge Revenue

\$109,101.76 Annual Interest Payment on Debt (from Step 2)
 \$79,150.77 Plus: Annual Principal Payment (from Step 3)
 \$188,252.53 Debt Service Component of the Annual Surcharge Revenue

Step 8 - Find the Annual Surcharge Revenue Requirement Needed for the Loan Including Reserve Fund

\$25,209.92 Annual Income Tax Component of the Annual Surcharge Revenue (from Step 6)
 \$188,252.53 Plus: Debt Service Component of the Annual Surcharge Revenue (from Step 7)
 \$37,650.51 Plus: Annual Reserve Fund Deposit [20% x Principal & Interest (From Step 1)]
 \$251,112.95 Total Annual Surcharge Revenue Requirement for the Loan

Step 9 - Find the Equivalent Bills**Equivalent Bills**

Col A	Col B	Col C	Col D	Col E
Meter Size	NARUC Multiplier	Number of Customers	Number of Months in Year	Equivalent Bills Col B x C x D
5/8" x 3/4" Meter	1	1,011	12	12,132
3/4" Meter	1.5	0	12	-
1" Meter	2.5	19	12	570
1 1/2" Meter	5	10	12	600
2" Meter	8	3	12	288
3" Meter	15	0	12	-
4" Meter	25	0	12	-
6" Meter	50	0	12	-
		1,043		13,590

Step 10 - Find the Monthly Surcharge for the 5/8" x 3/4" Meter Size Customers

\$251,112.95 Total Annual Surcharge Revenue Requirement for the Loan (from Step 8)
 13,590 Divided by: Total Number of Equivalent Bills
 \$ 18.48 Monthly Surcharge for 3/4" Customers

Step 11 - Find the Monthly Surcharge for the Remaining Meter Size Customers**Equivalent Bills**

Col A	Col B	Col C	Col D
Meter Size	NARUC Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C
5/8" x 3/4" Meter	1	\$ 18.48	\$ 18.48
3/4" Meter	1.5	\$ 18.48	\$ 27.72
1" Meter	2.5	\$ 18.48	\$ 46.19
1 1/2" Meter	5	\$ 18.48	\$ 92.39
2" Meter	8	\$ 18.48	\$ 147.82
3" Meter	15	\$ 18.48	\$ 277.17
4" Meter	25	\$ 18.48	\$ 461.94
6" Meter	50	\$ 18.48	\$ 923.89

Bob B. Walkins DBA East Slope Water Company.

Supplemental Schedule PNT-1

Docket No. W-01906A-10-0186, W-02031A-10-0184 & W-02327A10-0185

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TABLE A
Conversion Factor Table (Based on a 17-year Loan)

Line No.	Column A: Annual Interest	Column B: Annual Payment Conversion Factor	Column C: Annual Interest Payment Conversion Factor	Column D: Annual Principal Payment Conversion Factor
1	3.50%	0.0781	0.0343	0.0438
2	3.75%	0.0796	0.0368	0.0429
3	4.00%	0.0812	0.0392	0.0419
4	4.25%	0.0827	0.0417	0.0410
5	4.50%	0.0843	0.0442	0.0401
6	4.75%	0.0858	0.0467	0.0392
7	5.00%	0.0874	0.0491	0.0383
8	5.25%	0.0890	0.0516	0.0374
9	5.50%	0.0907	0.0541	0.0366
10	5.75%	0.0923	0.0566	0.0357
11	6.00%	0.0940	0.0591	0.0349
12	6.25%	0.0956	0.0615	0.0341
13	6.50%	0.0973	0.0640	0.0333
14	6.75%	0.0990	0.0665	0.0325
15	7.00%	0.1008	0.0690	0.0318
16	7.25%	0.1025	0.0715	0.0310

Decision No. _____

Consolidated: East Slope Water Company.
Docket No. W-01906A-10-0186, W-02031A-10-0184 & W-02327A10-0185

Schedule PNT-2
Page 1 of 3

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Staff Recommended		Present Rates	Recomemnded Rates	Dollar Increase	Percent Increase
Average Usage	9,137	\$ 25.51	\$ 43.76	\$ 18.25	71.53%
Median Usage	5,300	18.99	37.24	\$ 18.25	96.10%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons	Present	Staff Recommended	%
	Minimum Charge* \$ 12.23	Minimum Charge** \$ 30.48	
	1st Tier Rate 0.9500	1st Tier Rate 0.9500	
	1st Tier Breakover 3,000	1st Tier Breakover 3,000	
	2nd Tier Rate 1.7000	2nd Tier Rate 1.7000	
	2nd Tier Breakover 10,000	2nd Tier Breakover 10,000	
	3rd Tier Rate 3.1700	3rd Tier Rate 3.1700	
Consumption	Rates	Rates	Increase
-	\$ 12.23	\$ 30.48	149.22%
1,000	13.18	31.43	138.47%
2,000	14.13	32.38	129.16%
3,000	15.08	33.33	121.02%
4,000	16.78	35.03	108.76%
5,000	18.48	36.73	98.76%
6,000	20.18	38.43	90.44%
7,000	21.88	40.13	83.41%
8,000	23.58	41.83	77.40%
9,000	25.28	43.53	72.19%
10,000	26.98	45.23	67.64%
11,000	30.15	48.40	60.53%
12,000	33.32	51.57	54.77%
13,000	36.49	54.74	50.01%
14,000	39.66	57.91	46.02%
15,000	42.83	61.08	42.61%
16,000	46.00	64.25	39.67%
17,000	49.17	67.42	37.12%
18,000	52.34	70.59	34.87%
19,000	55.51	73.76	32.88%
20,000	58.68	76.93	31.10%
25,000	74.53	92.78	24.49%
30,000	90.38	108.63	20.19%
35,000	106.23	124.48	17.18%
40,000	122.08	140.33	14.95%
45,000	137.93	156.18	13.23%
50,000	153.78	172.03	11.87%
75,000	233.03	251.28	7.83%
100,000	312.28	330.53	5.84%

* The rate includes \$12.00 regular monthly minimum charge and \$0.23 WIFA Loan surcharge.

** The rate includes \$12.00 regular monthly minimum charge and \$18.48 WIFA Loan surcharge.

Decision No. _____

Consolidated: Indiada Water Company.
Docket No. W-01906A-10-0186, W-02031A-10-0184 & W-02327A10-0185

Schedule PNT-2
Page 2 of 3

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Staff Recommended		Present Rates		Recommended Rates		Dollar Increase	Percent Increase
Average Usage	8,731	\$	24.82	\$	43.07	\$ 18.25	73.52%
Median Usage	5,260		18.92		37.17	\$ 18.25	96.45%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons	Present	Staff Recommended	%
	Minimum Charge* \$ 12.23	Minimum Charge** \$ 30.48	
	1st Tier Rate 0.9500	1st Tier Rate 0.9500	
	1st Tier Breakover 3,000	1st Tier Breakover 3,000	
	2nd Tier Rate 1.7000	2nd Tier Rate 1.7000	
	2nd Tier Breakover 10,000	2nd Tier Breakover 10,000	
	3rd Tier Rate 3.1700	3rd Tier Rate 3.1700	
Consumption	Rates	Rates	Increase
-	\$ 12.23	\$ 30.48	149.22%
1,000	13.18	31.43	138.47%
2,000	14.13	32.38	129.16%
3,000	15.08	33.33	121.02%
4,000	16.78	35.03	108.76%
5,000	18.48	36.73	98.76%
6,000	20.18	38.43	90.44%
7,000	21.88	40.13	83.41%
8,000	23.58	41.83	77.40%
9,000	25.28	43.53	72.19%
10,000	26.98	45.23	67.64%
11,000	30.15	48.40	60.53%
12,000	33.32	51.57	54.77%
13,000	36.49	54.74	50.01%
14,000	39.66	57.91	46.02%
15,000	42.83	61.08	42.61%
16,000	46.00	64.25	39.67%
17,000	49.17	67.42	37.12%
18,000	52.34	70.59	34.87%
19,000	55.51	73.76	32.88%
20,000	58.68	76.93	31.10%
25,000	74.53	92.78	24.49%
30,000	90.38	108.63	20.19%
35,000	106.23	124.48	17.18%
40,000	122.08	140.33	14.95%
45,000	137.93	156.18	13.23%
50,000	153.78	172.03	11.87%
75,000	233.03	251.28	7.83%
100,000	312.28	330.53	5.84%

* The rate includes \$12.00 regular monthly minimum charge and \$0.23 WIFA Loan surcharge.

** The rate includes \$12.00 regular monthly minimum charge and \$18.48 WIFA Loan surcharge.

Decision No. _____

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Staff Recommended		Present Rates	Recommended Rates	Dollar Increase	Percent Increase
Average Usage	11,839	\$ 32.81	\$ 51.06	\$ 18.25	55.62%
Median Usage	6,900	21.71	39.96	\$ 18.25	84.06%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons	Present		Staff Recommended		%
	Minimum Charge*	\$ 12.23	Minimum Charge**	\$ 30.48	
	1st Tier Rate	0.9500	1st Tier Rate	0.9500	
	1st Tier Breakover	3,000	1st Tier Breakover	3,000	
	2nd Tier Rate	1.7000	2nd Tier Rate	1.7000	
	2nd Tier Breakover	10,000	2nd Tier Breakover	10,000	
	3rd Tier Rate	3.1700	3rd Tier Rate	3.1700	
Consumption	Rates		Rates		Increase
-	\$	12.23	\$	30.48	149.22%
1,000		13.18		31.43	138.47%
2,000		14.13		32.38	129.16%
3,000		15.08		33.33	121.02%
4,000		16.78		35.03	108.76%
5,000		18.48		36.73	98.76%
6,000		20.18		38.43	90.44%
7,000		21.88		40.13	83.41%
8,000		23.58		41.83	77.40%
9,000		25.28		43.53	72.19%
10,000		26.98		45.23	67.64%
11,000		30.15		48.40	60.53%
12,000		33.32		51.57	54.77%
13,000		36.49		54.74	50.01%
14,000		39.66		57.91	46.02%
15,000		42.83		61.08	42.61%
16,000		46.00		64.25	39.67%
17,000		49.17		67.42	37.12%
18,000		52.34		70.59	34.87%
19,000		55.51		73.76	32.88%
20,000		58.68		76.93	31.10%
25,000		74.53		92.78	24.49%
30,000		90.38		108.63	20.19%
35,000		106.23		124.48	17.18%
40,000		122.08		140.33	14.95%
45,000		137.93		156.18	13.23%
50,000		153.78		172.03	11.87%
75,000		233.03		251.28	7.83%
100,000		312.28		330.53	5.84%

* The rate includes \$12.00 regular monthly minimum charge and \$0.23 WIFA Loan surcharge.

** The rate includes \$12.00 regular monthly minimum charge and \$18.48 WIFA Loan surcharge.

Decision No. _____

MEMORANDUM

DATE: June 5, 2015

TO: Phan Tsan
Public Utilities Analyst
Utilities Division

FROM: Katrin Stukov *KS*
Utilities Engineer *ben*
Utilities Division

RE: East Slope Water Company
Docket No. W-02031A-10-0168, et.al

Introduction

On March 6, 2015, East Slope Water Company ("Company") filed an application to amend Decision Nos. 73091 and 73615 pursuant to A.R.S. Section 40-252 to modify scope of improvement projects (outlined in Exhibit B of Decision No. 73091) and to modify certain dates related to financing and construction of proposed improvement projects.

As part of its application, the Company submitted a water system evaluation memorandum and an Opinion of Probable Costs ("OPC") prepared by Westland Resources, Inc. ("Memorandum").

The Company operates two separate water systems south of Sierra Vista, in Cochise County. These systems are East Slope Main Water System ("Main System") and East Slope West Water System ("West System")¹.

Main System

The Main System serves approximately 745 customers in two areas-the main area and the Rancho San Pedro development ("RSP") area². The system has two pressure zones. Based on the Company's 2014 Annual Report ("Annual Report"), the Main system consists of eight operational wells, three storage tanks and two booster stations (of which three wells, a storage tank and a booster station are located within RSP).

The Company reported the peak use month as June with 9,207,000 gallons sold. In the same records, the Company reported the total well production capacity of 542 gallon per minute ("GPM") and storage capacity of 462,000 gallons. Using this information, Staff determined that with eight wells operating at the previously reported levels, the total well production capacity and storage

¹ According to the Department of Environmental Quality ("ADEQ"), the Company's interconnected Antelope Run and Indiada water systems merged into one system -East Slope West in 2012.

² Currently there is only one customer (Forest Service) in RSP.

capacity is adequate to serve the present customer base and reasonable growth. However, according to the Company, this well capacity has proven to be unreliable during low rainfall periods, therefore, service to customers has sometimes been inadequate.

The modified scope of the Company's proposed major improvements to the Main System's distribution system includes permanent interconnection of the Main System's two areas in order to better utilize facilities within RSP, pipeline looping and main replacement projects. These improvement projects are estimated to have a total cost of \$1,303,438 as summarized in the Proposed Capital Improvement Projects and Costs Table.

West System

The West System, which includes two areas (Antelope Run and Indiada), serves approximately 230 customers, and has three pressure zones. Based on the Annual Report, the West system consists of five wells, two storage tanks (totaling 27,000 gallons) and three booster systems.

According to the Memorandum, several wells have a tendency to dry up in low rainfall periods. The Memorandum concludes that the West System current well capacity is not sufficient to adequately meet existing demand and redundancy requirements. The Company proposes to install an emergency interconnect with the adjacent Pueblo Del Sol Water Company ("PDS"). Staff requested the Company provide the signed Interconnect Agreement between the Company and PDS. The Company responded that there is no such agreement in place. Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket documentation which demonstrates that the interconnect with PDS will provide the West System as much water as needed by the Company to serve its customers. This documentation should be provided prior to the Company closing on any loan for these improvements or by October 2, 2015, whichever is earlier.

The Memorandum also concludes that the West System's current storage capacity is not sufficient to meet typical storage requirements or satisfy water system demand. The Company proposes to replace the existing 12,000 gallon storage tank³ (at Indiada Well No.2 site) with a 100,000 gallon storage tank.

The modified scope of the Company's proposed major improvements to the West System includes interconnection with PDS, addition of a new 100,000 gallon storage tank, addition of a new booster pump, replacement of pressure tank and water line additions. These improvement projects are estimated at total cost of \$810,625 as summarized in the Proposed Capital Improvement Projects and Costs Table below.

³ Due to site constraints, the existing 12,000 gallon storage tank may need to be removed.

Proposed Capital Improvement Projects and Costs Table					
Item No.	Item Description	Quantity	Unit Cost	Amount	Remarks
Main System					
1	Install new 6-inch PVC waterline and all appurtenances between Well No.3 to Camino Principal	7,250 lf	\$65	\$471,250	To improve system's water distribution, pressure and redundancy
2	Install new 6-inch DIP waterline and all appurtenances between Well No.3 to Camino Principal	300 lf	\$85	\$25,500	Ductile Iron Pipe is required at all wash crossings
3	Directional drill under roadways (HDPE)	180 lf	\$250	\$45,500	To comply with Cochise County right-of-way paved roads crossings
4	Install tie-ins (6-inch and 4-inch pipe) to existing system			\$35,000	To tie new 6-inch waterline into water system in several locations, including Well No.2 site
5	Miscellaneous piping tie-over and replacements between Wells No.4 and 1 sites including water main and service connections			\$22,000	To abandon old 2-inch lines and connect to existing 6-inch line
6	Install new? PRV station as part of pipeline project referenced in Item No. 9	1	\$15,000	\$15,000	To regulate pressure in two separate pressure zones
7	Temporary water line for construction			\$23,000	
8	Install new 4-inch PVC waterline in Glenn Road	1,000 lf	\$50	\$50,000	To replace existing 2-inch line
9	Install new 6-inch PVC waterline and all appurtenances, tie-ins, crossings in Ramsey Road east of Well No.3	3,600 lf	\$85	\$306,000	To permanently interconnect main and RSP pressure zones and improve water flow from RSP facilities
10	Directional drill under roadways (HDPE)	200	\$250	\$50,000	To comply with Cochise County right-of-way paved roads crossings
	Subtotal			\$1,042,750	
	Engineering, Permitting, Construction Services and Contingencies		25%	\$260,688	
	Total Project Costs			\$1,303,438	
West System					
1	Install new 100,000 gallon storage tank at Indiada Well No. 2 site	1	\$170,000	\$170,000	To improve system's storage capacity
2	Site work and piping at Indiada Well No. 2 site			\$35,000	As part of projects referenced in Item No. 1 and Item No.3
3	Booster and electrical upgrades at Indiada Well No. 2 site			\$25,000	To improve system pressure
4	Install new 6-inch DIP waterline and all appurtenances	2,100 lf	\$90	\$189,000	To connect new storage tank to the system
5	Install new 6-inch PVC waterline and all appurtenances in East Yaqui Street	1,400 lf	\$75	\$105,000	Interconnect to PDS to provide backup of water supply
6	Install new booster pump at Antelope Run Well No.1 site	1		\$45,000	To improve water distribution and redundancy
7	Install new pressure tank at Antelope Run Well No.1 site	1		\$20,000	To replace failing tank
8	Electrical upgrades at Antelope Run Well No.1 site			\$15,000	As part of projects referenced in Item No. 6
9	Install new 4-inch PVC waterline	300 lf	\$65	\$19,500	To improve system's water distribution, pressure and redundancy
10	Radio control system	1		\$25,000	To improve system operation
	Subtotal			\$648,500	
	Engineering, Permitting, Construction Services and Contingencies		25%	\$162,125	
	Total Project Costs			\$810,625	
	Total for Main and West systems			\$2,114,063	

Staff concludes the proposed capital improvements and estimated costs totaling \$2,114,063, as delineated in the Proposed Capital Improvement Projects and Costs Table, for the Company's two systems appear to be reasonable and appropriate. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for rate making or rate base purposes.

Arizona Department of Environmental Quality ("ADEQ") Compliance Status

According to an ADEQ Compliance Status Report, dated March 5, 2015, ADEQ reported no major deficiencies and has determined that the Company's two systems are currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Arizona Department of Water Resources ("ADWR") Compliance Status

The Company is not located in an Active Management Area ("AMA"). According to an ADWR Compliance Status Report, dated April 29, 2015, ADWR has determined that the Company's two systems are in compliance with ADWR requirements with regard to Annual Report and System Water Plan filings.

Arizona Corporation Commission ("ACC") Compliance Status⁴

The Utilities Division Compliance Section noted that a check of the compliance database indicates that there are currently no delinquencies for the Company.

Summary

Conclusions

1. Staff concludes the proposed capital improvements and estimated costs totaling \$2,114,063, as delineated in the Proposed Capital Improvement Projects and Costs Table, for the Company's two systems appear to be reasonable and appropriate. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for rate making or rate base purposes.
2. The Company is in compliance with ADEQ and ADWR regulations and has no delinquent Commission compliance issues.

Recommendations

1. Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket documentation which demonstrates that the interconnect with PDS will provide the West System as much water as needed by the Company to serve its customers. This documentation should be provided prior to the Company closing on any loan for these improvements or by October 2, 2015, whichever is earlier.
2. Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, by July 1, 2016, copies of the Approvals of Construction ("AOC") for each of the proposed improvement projects, as delineated in the Proposed Capital Improvement Projects and Costs Table.

⁴ Per ACC compliance check on June 4, 2015

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 SUSAN BITTER SMITH

Chairman

3 BOB STUMP

Commissioner

4 BOB BURNS

Commissioner

5 DOUG LITTLE

Commissioner

6 TOM FORESE

Commissioner

8 IN THE MATTER OF THE APPLICATION }
9 OF BOB B. WATKINS DBA EAST SLOPE }
10 WATER COMPANY TO AMEND DECISION }
11 NO. 73091 PURSUANT TO A.R.S. §40-252. }

DOCKET NOS. W-02031A-10-0168
W-02327A-10-0169
W-01906A-10-0170
W-01906A-10-0171
W-02031A-10-0171
W-02327A-10-0171
W-01906A-10-0183
W-02031A-10-0184
W-02327A-10-0185

13 DECISION NO. _____
14 ORDER

15 Open Meeting
16 July 7 and 8, 2015
17 Phoenix, Arizona

18 BY THE COMMISSION:

19 FINDINGS OF FACT

20 **Introduction and Background**

21 1. Bob D. Watkins dba East Slope Water Company ("East Slope" or "Company") is
22 certificated to prove water service as a public service corporation in the State of Arizona.

23 2. On April 4, 2012, the Arizona Corporation Commission ("Commission") issued
24 Decision No. 73091 approving adjusted rates and a water infrastructure surcharge mechanism for East
25 Slope. As part of the Decision, the Commission authorized the Company to obtain a 20-year
26 amortizing loan in an amount not to exceed \$2,748,504 to finance the proposed improvement
27 projects, and at an interest rate not to exceed that which is available from the Water Infrastructure
28 Finance Authority of Arizona ("WIFA").

1 3. On December 12, 2013, the Commission issued Decision No. 73615 which amended
2 Decision No. 73091 to authorize the Company to obtain an interest only loan from WIFA, for a term
3 not to exceed three years and in an amount not to exceed \$282,748, for the purpose of planning and
4 designing improvements to the Company's water system. The Company shall then roll the
5 outstanding balance of that loan into a second loan in an amount not to exceed a combined total of
6 \$2,748,504 for the purpose of constructing improvements to the Company's water system. The length
7 of the second loan coupled with the actual length of the first loan is equal to 20 years. Decision No.
8 73615 also approved the infrastructure surcharge mechanism for the Company.

9 4. The Company's current monthly infrastructure surcharge is \$0.23 for a customer with
10 a 5/8 x 3/4-inch meter.

11 5. On March 6, 2015, the Company filed an application to amend Decision No. 73091
12 pursuant to A.R.S Section 40-252 to modify the scope of the improvement projects (outlined in
13 Exhibit B of Decision No.73091) and to modify certain dates related to financing and construction of
14 proposed improvement projects.

15 6. On March 27, 2015, WIFA submitted a request to amend Decision No. 73091, to get
16 approval of the revised project list, and to request that the calculation of the water infrastructure
17 surcharge also include the debt service reserve.

18 7. Staff reviewed the modified proposed improvement projects outlines in the attached
19 Exhibit A and determined the projects are appropriate and the cost estimates of \$2,114,063 projected
20 by the Company are reasonable. Staff made no used and useful determination of the proposed plant
21 and no particular future treatment should be inferred for rate-making purposes.

22 8. According to the memorandum, several wells in the West System have a tendency to
23 dry up in low rainfall periods. The Memorandum concludes that the West System current well
24 capacity is not sufficient to adequately meet existing demand and redundancy requirements. The
25 Company proposes to install an emergency interconnect with the adjacent Pueblo Del Sol Water
26 Company ("PDS"). Staff requested the Company provide the signed Interconnect Agreement
27 between the Company and PDS. The Company responded that there is no such agreement in place.

28 ...

Calculation of Infrastructure Surcharge

9. Staff's calculation utilized the Company's customer billing determinants to compute the appropriate infrastructure surcharge based on meter size. Staff's infrastructure surcharge is calculated to be collected as a monthly surcharge in addition to the customary monthly minimum charge and does not include a commodity component.

10. Based on the estimated \$2,114,063 WIFA loan and the 5.25 percent combined interest and fee rate, the Company will be required to pay \$188,253 for Annual Principal and Interest and \$37,651 for Annual Debt Service Reserve. The WIFA loan surcharge also includes a component for the annual income tax. A Gross Revenue Conversion Factor of 1.318505, approved in Decision No. 73091, was used to calculate the annual income tax component of surcharge revenue.

11. Staff has included the debt service reserve fund in the WIFA loan surcharge that customers will pay. The debt service reserve fund is a fund that the Company pays into for five years. After five years, the balance will equal one year of principal and interest payments for the loan.

12. Staff calculated a monthly infrastructure surcharge for a customer with a 5/8 x 3/4-inch meter at \$18.48.

13. An East Slope Water Company residential customer on a 5/8 x 3/4-inch meter using an average of 9,137 gallons would see a monthly increase of \$18.25, or 71.25 percent, from \$25.51 to \$43.76.¹

14. An Indiada Water Company residential customer on a 5/8 x 3/4-inch meter using an average of 8,731 gallons would see a monthly increase of \$18.25, or 73.51 percent, from \$24.82 to \$43.07.

15. An Antelope Run Water Company residential customer on a 5/8 x 3/4-inch meter using an average of 11,839 gallons would see a monthly increase of \$18.25, or 55.62 percent, from \$32.81 to \$51.06.

...

¹ Decision No. 73019 approved the consolidation of Indiada Water Company, Antelope Run Water and East Slope Water Company. East Slope Water Company was the remaining entity. Separate rates were maintained for East Slope, Indiada and Antelope Run customers.

16. When the reserve fund is included in the WIFA surcharge, as Staff has done, ratepayers will be effectively "prepaying" \$188,253 in funding that will eventually be used to either make loan payments or to pay for future maintenance, or this balance will be refunded to the Company. Ratepayers should ultimately be given credit for making these prepayments.

17. Staff recommends modification of the loan authorizations approved in Decision No.73091 via A.R.S §40-252 to approve the modified proposed improvement projects outlines in the attached Exhibit A and to authorize the Company to obtain a seventeen-year amortizing consolidated loan in an amount not to exceed \$2,114,063 for the purpose of constructing system improvements.

18. Staff recommends approval of the infrastructure surcharges presented below:

MONTHLY INFRASTRUCTURE SURCHARGE

5/8"x 3/4" Meter	\$ 18.48
3/4" Meter	\$ 27.72
1" Meter	\$ 46.20
1 1/2" Meter	\$ 92.40
2" Meter	\$147.84
3." Meter	\$295.68
4" Meter	\$462.00
6" Meter	\$924.00

19. Staff has also recommended the following:

Staff recommends the new infrastructure surcharge become effective when the Company closes this portion of the WIFA loan.

Staff recommends the cancellation of the current monthly infrastructure surcharge when the new infrastructure surcharge becomes effective.

Staff recommends that the Company place the surcharge funds in a separate, interest-bearing account; and withdrawal access to that account is restricted to only WIFA except for income tax withdrawals necessary to pay the associated income taxes.

Staff recommends that the Company file with the Commission an infrastructure surcharge tariff consistent with the rates reflected in schedule PNT-1.

Staff recommends that the Company be required to file a follow-up rate case within five years of the effective date of the surcharge approval. If the Company fails to timely file the rate case, the WIFA infrastructure surcharge will automatically cease no later than July 31, 2020.

Staff recommends that the Company notify its customers of the infrastructure surcharge tariff approved in this proceeding within 30 days of the effective date of the Commission Decision, in a notice acceptable to Staff.

Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, documentation which demonstrates the final loan details and customer count within 30 days of when the new infrastructure surcharge is first billed.

As per Staff Engineer's memo, Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, documentation which demonstrates that the interconnect with Pueblo Del Sol Water Company will provide the West System as much water as needed by the Company to serve its customers. This documentation should be provided prior to the Company closing on any loan for these improvements or by October 2, 2015, whichever is earlier.

Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, by July 1, 2016, copies of the Approvals of Construction ("AOC") for each of the proposed improvement projects, as delineated in the Proposed Capital Improvement Projects and Costs Table.

20. We find Staff's recommendations to be reasonable and will adopt them.

CONCLUSIONS OF LAW

1. Bob D. Watkins dba East Slope Water Company is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. § § 40-250 and 40-252.

2. The Commission has jurisdiction over Bob D. Watkins dba East Slope Water Company and of the subject matter of the application.

3. Pursuant to A.R.S. § 40-252, the Commission, having reviewed the record, concludes that it is in the public interest to approve the modifications to Decision No. 73091, as discussed herein.

4. The Commission further concludes that approval of an infrastructure surcharge recovery mechanism is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

5. The Commission further concludes that it is in the public interest to approve the infrastructure surcharge for Bob D. Watkins dba East Slope Water Company, as discussed herein.

ORDER

IT IS THEREFORE ORDERED that Decision No. 73091 is amended to adopt modified proposed improvement projects outlined in the attached Exhibit A.

IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company is hereby

1 authorized to obtain a 17-year amortizing loan in an amount not to exceed \$2,114,063 to finance the
2 modified proposed improvement projects, and at an interest rate not to exceed that which is available
3 from WIFA.

4 IT IS FURTHER ORDERED that the infrastructure surcharge mechanism for Bob D.
5 Watkins dba East Slope Water Company is approved, as discussed herein.

6 IT IS FURTHER ORDERED that Bob D. Watkins dba East Slope Water Company is hereby
7 authorized and directed to file with the Commission's Docket Control, as a compliance item in this
8 docket, within 30 days of the effective date of this Decision, a revised tariff setting forth the following
9 infrastructure surcharges:

10 **MONTHLY INFRASTRUCTURE SURCHARGE**

11	5/8"x 3/4" Meter	\$ 18.48
12	3/4" Meter	\$ 27.72
13	1" Meter	\$ 46.20
14	1 1/2" Meter	\$ 92.40
15	2" Meter	\$147.84
16	3." Meter	\$295.68
17	4" Meter	\$462.00
18	6" Meter	\$924.00

19 IT IS FURTHER ORDERED that the new infrastructure surcharge become effective when
20 Bob B. Watkins dba East Slope Water Company closes this portion of the WIFA loan.

21 IT IS FURTHER ORDERED that the current monthly infrastructure surcharge is cancelled
22 when the new infrastructure surcharge becomes effective.

23 IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company shall
24 place the surcharge funds in a separate, interest-bearing account; and withdrawal access to that
25 account is restricted to only WIFA except for income tax withdrawals necessary to pay the associated
26 income taxes.

27 IT IS FURTHER ORDERED that the Bob B. Watkins dba East Slope Water Company file
28 with Docket Control, as a compliance item in this docket, documentation which demonstrates the
final loan details and customer count within 30 days of when the new infrastructure surcharge is first
billed.

...

1 IT IS FURTHER ORDERED that the Bob B. Watkins dba East Slope Water Company file
2 with Docket Control, as a compliance item in this docket documentation which demonstrates that the
3 interconnect with Pueblo Del Sol Water Company will provide the West System as much water as
4 needed by Bob B. Watkins dba East Slope Water Company to serve its customers. This
5 documentation shall be provided prior to Bob B. Watkins dba East Slope Water Company closing on
6 any loan for these improvements or by October 2, 2015, whichever is earlier.

7 IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company notify its
8 customers of the infrastructure surcharge tariff approved in this proceeding within 30 days of the
9 effective date of the Commission Decision, in a notice acceptable to Staff.

10 IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company file with
11 Docket Control, as a compliance item in this docket, by July 1, 2016, copies of the Approvals of
12 Construction ("AOC") for each of the proposed improvement projects, as delineated in the Proposed
13 Capital Improvement Projects and Costs Table.

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1 IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company file a rate
2 case within five years of the effective date of the surcharge approval. If Bob B. Watkins dba East
3 Slope Water Company fails to timely file the rate case, the WIFA infrastructure surcharge will
4 automatically cease no later than July 31, 2020.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6
7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

8
9
10 CHAIRMAN

COMMISSIONER

11
12 COMMISSIONER

COMMISSIONER

COMMISSIONER

13
14 IN WITNESS WHEREOF, I, JODI JERICH, Executive
15 Director of the Arizona Corporation Commission, have
16 hereunto, set my hand and caused the official seal of this
Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2015.

17
18
19 _____
JODI JERICH
EXECUTIVE DIRECTOR

20
21 DISSENT: _____

22
23 DISSENT: _____

24 SMO:PNT:red\RRM

1 SERVICE LIST FOR: Bob D. Watkins dba East Slop Water Company
2 DOCKET NO. W-02031A-10-0168 et al.

3 Mr. Steve Wene
4 1850 North Central Avenue, Suite 1100
5 Phoenix, Arizona 85004

6 Ms. Bonnie O'Connor
7 2015 Forbes Boulevard, Suite 107
8 Tucson, Arizona 85745

9 Mr. Steven M. Olea
10 Director, Utilities Division
11 Arizona Corporation Commission
12 1200 West Washington Street
13 Phoenix, Arizona 85007

14 Ms. Janice M. Alward
15 Chief Counsel, Legal Division
16 Arizona Corporation Commission
17 1200 West Washington Street
18 Phoenix, Arizona 85007

19 Mr. Dwight Node
20 Acting Chief Administrative Law Judge, Hearings Division
21 Arizona Corporation Commission
22 1200 West Washington Street
23 Phoenix, AZ 85007

EXHIBIT A

Proposed Capital Improvement Projects and Costs Table					
Item No.	Item Description	Quantity	Unit Cost	Amount	Remarks
Main System					
1	Install new 6-inch PVC waterline and all appurtenances between Well No.3 to Camino Principal	7,250 lf	\$65	\$471,250	To improve system's water distribution, pressure and redundancy
2	Install new 6-inch DIP waterline and all appurtenances between Well No.3 to Camino Principal	300 lf	\$85	\$25,500	Ductile Iron Pipe is required at all wash crossings
3	Directional drill under roadways (HDPE)	180 lf	\$250	\$45,500	To comply with Cochise County right-of-way paved roads crossings
4	Install tie-ins (6-inch and 4-inch pipe) to existing system			\$35,000	To tie new 6-inch waterline into water system in several locations, including Well No.2 site
5	Miscellaneous piping tie-over and replacements between Wells No.4 and 1 sites including water main and service connections			\$22,000	To abandon old 2-inch lines and connect to existing 6-inch line
6	Install new? PRV station as part of pipeline project referenced in Item No. 9	1	\$15,000	\$15,000	To regulate pressure in two separate pressure zones
7	Temporary water line for construction			\$23,000	
8	Install new 4-inch PVC waterline in Glenn Road	1,000 lf	\$50	\$50,000	To replace existing 2-inch line
9	Install new 6-inch PVC waterline and all appurtenances, tie-ins, crossings in Ramsey Road east of Well No.3	3,600 lf	\$85	\$306,000	To permanently interconnect main and RSP pressure zones and improve water flow from RSP facilities
10	Directional drill under roadways (HDPE)	200	\$250	\$50,000	To comply with Cochise County right-of-way paved roads crossings
	Subtotal			\$1,042,750	
	Engineering, Permitting, Construction Services and Contingencies		25%	\$260,688	
	Total Project Costs			\$1,303,438	
West System					
1	Install new 100,000 gallon storage tank at Indiada Well No. 2 site	1	\$170,000	\$170,000	To improve system's storage capacity
2	Site work and piping at Indiada Well No. 2 site			\$35,000	As part of projects referenced in Item No. 1 and Item No.3
3	Booster and electrical upgrades at Indiada Well No. 2 site			\$25,000	To improve system pressure
4	Install new 6-inch DIP waterline and all appurtenances	2,100 lf	\$90	\$189,000	To connect new storage tank to the system
5	Install new 6-inch PVC waterline and all appurtenances in East Yaqui Street	1,400 lf	\$75	\$105,000	Interconnect to PDS to provide backup of water supply
6	Install new booster pump at Antelope Run Well No.1 site	1		\$45,000	To improve water distribution and redundancy
7	Install new pressure tank at Antelope Run Well No.1 site	1		\$20,000	To replace failing tank
8	Electrical upgrades at Antelope Run Well No.1 site			\$15,000	As part of projects referenced in Item No. 6
9	Install new 4-inch PVC waterline	300 lf	\$65	\$19,500	To improve system's water distribution, pressure and redundancy
10	Radio control system	1		\$25,000	To improve system operation
	Subtotal			\$648,500	
	Engineering, Permitting, Construction Services and Contingencies		25%	\$162,125	
	Total Project Costs			\$810,625	
	Total for Main and West systems			\$2,114,063	

Decision No. _____